HOUSING MARKET INFORMATION

# HOUSING MARKET OUTLOOK

## Ottawa[1]

Canada Mortgage and Housing Corporation

Date Released: Spring 2009

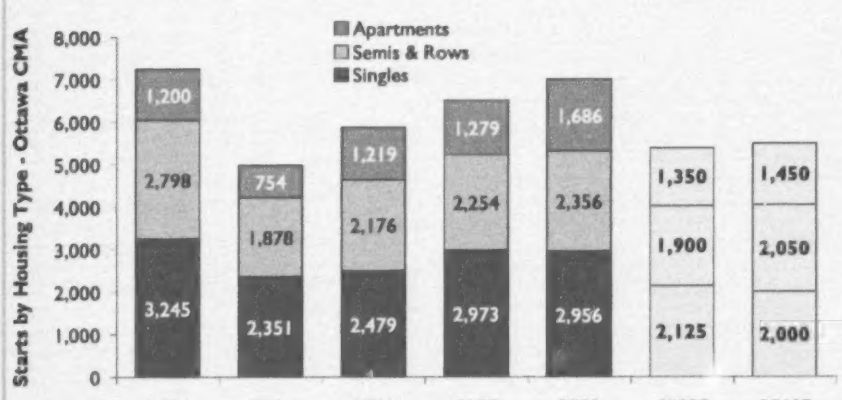
## New Home Market

### New Home Construction to Slow Down Toward Demographic Needs

After a four-year peak in construction during 2008, and amid the current economic and financial uncertainty, the New Home Market in the Ottawa CMA will slow down during 2009. Inventory of unsold homes has remained at a level substantially below the average for the last 20 years, thus precluding the need for sharp corrections. Nonetheless, lower employment growth and a slower but still more price competitive resale market will also translate into less spillover demand into the New Home Market. Total new starts are expected to reach 5,375 new units by the end of the year, down 23.2 per cent from 2008,

Figure 1

**New Construction Slowing to More Sustainable Levels**




Source: CMHC

[1] Ontario part of Ottawa-Gatineau CMA

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before recovering in 2010 as the economy stabilizes.

The current f ecast is conservative and calls for cautious optimism. The residential construction industry in the Queen City remains in good health and will therefore exhibit a normal cyclical downward adjustment. This will bring the pace of new starts during 2009 and 2010 to more moderate and sustainable levels, consistent with both economic fundamentals and demographic needs.

### Single-Detached Starts Will Adjust the Most

The recent strong demand for new single-detached homes will experience the sharpest slowdown during 2009, as households in Ottawa substitute in favour of more affordable, higher-density dwellings. Increased caution among first-time homebuyers, a negative wealth effect caused by equity losses among baby-boomers, and reduced affordability for more expensive dwellings will constitute the major factors leading to weakness in demand during 2009 and 2010.

Construction levels of single-family homes during the past two years have clearly outpaced long term demographic fundamentals. As a result, single-detached starts will reach a more moderate 2,125 new units in 2009, down 28.1 per cent from 2008. Accordingly, the growth in the average price for a new single-detached home is expected to slow down to a mild but still positive 0.5 per cent in 2009, reaching $411,000.

### Suburban Townhomes Will Remain Popular Among First-Time Buyers

As the share of single-detached starts is set to fall short of 40 per cent of total activity for the second time since the early 1980's, the speed of construction will decelerate in the popular suburban neighborhoods that depend heavily on low-density homes. Townhome construction, in turn, will become an increasingly popular substitute, especially among first-time buyers.

The appeal of a suburban lifestyle and the recent improvement in homeownership affordability will sustain a robust demand for townhome dwellings. Accordingly, a total of 1,700 new townhomes will be built in 2009, down 20.7 per cent from last year but still well above historical levels. While single-detached starts will show yet another modest decline in 2010, substitution in housing demand will lead townhome construction to rebound at the fastest pace among all property types.

### Urban Apartment Construction Will Lead the Way in 2009

A growing pool of young professionals and fast-retiring baby-boomers are being confronted with a new and challenging economic reality. As well, the unprecedented volatility in the price of oil and growing concerns about environmental sustainability have indelibly changed people's perception toward long commutes. These factors will sustain a buoyant demand for more affordable new apartments during 2009 and 2010, especially condominium units closer to Ottawa's urban core.

Given the current economic uncertainty, and coming off from a six-year peak in 2008, the outlook for new construction of apartment units remains optimistic. By the end of 2009, new apartment starts will reach a total of 1,350 units, down 19.9 per cent from last year but still well above the historical average. Next year will bring in a healthy rebound of new apartment units.

## Resale Market

### Balanced Market Conditions to Prevail Throughout 2009

Ottawa's relative resilience to macroeconomic shocks has been evidenced once again after being the last one among the major centers to experience a slowdown in activity, which was as well much less severe. After the turbulent fourth quarter of 2008, resale market activity in the nation's Capital City will remain anchored in balanced territory for most of 2009. As a result, total sales of existing homes will retreat by 10.1 per cent in 2009 to reach 12,500 transactions, only slightly lower than the ten-year average and still healthy in historical perspective.

As economic activity in the national and global scenes stabilizes on a path of gradual recovery, a rebound in consumer spending supported by improved affordability will boost homeownership demand in 2010.

Figure 2

Source: Ottawa Real Estate Board, CMHC Forecast

## Average Resale Price Growth Slowing

The market dynamics forecast supports a flat average resale price growth. The average price of resale homes in 2009 will fall only 0.5 per cent below last year's all-time record-high, finishing the year at $289,000. The forecast is consistent with balanced resale market conditions, which typically feature average prices growing at a pace similar to the inflation rate. The outlook for 2010 remains moderately optimistic, with the average resale price growing at a modest rate, as concerns about uncertainty fade with the prospects of economic recovery.

## Homebuyers Will Benefit From More Choice

While healthier household finances in Ottawa have allowed homeowners to avoid distressed selling, the initial Resale Market slowdown was characterized by declining sales amid a growing supply of new listings. As new listings of homes for sale return to more sustainable levels consistent with a stabilizing market demand, the total supply of existing homes in Ottawa is expected to remain relatively flat in 2009.

In the midst of unprecedented economic uncertainty across Canada, cautious households in Ottawa will enter the spring and summer home-buying seasons with healthier budgets and more housing choices than last year. A lukewarm resale market temperature means that, on average, there will be close to one sale for every two new listings during 2009. Indeed, neither sellers nor buyers will have the upper hand at the bargaining table, which implies that the resale market will remain healthy and sustainable.

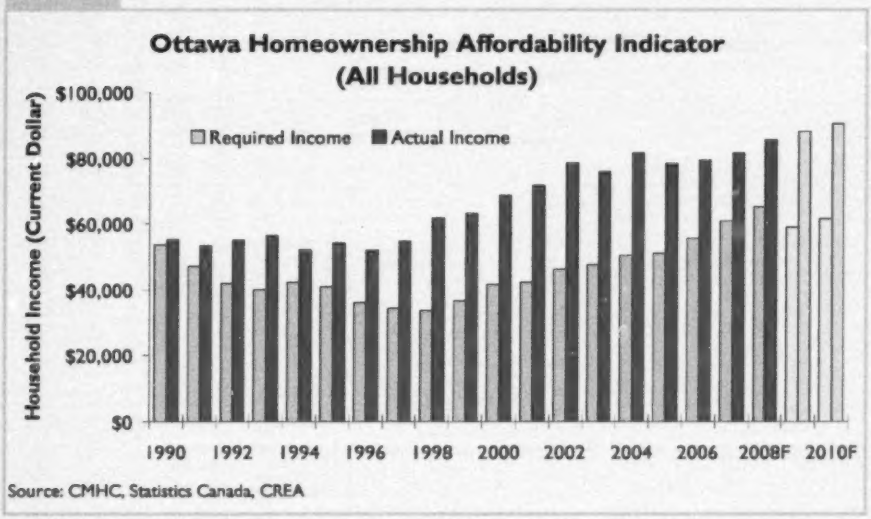
## More Affordable Regions to Be Favoured

While home-buying intentions remain relatively healthy, the fragility of the current economic environment will lead households to remain moderately cautious in their home purchase decisions. Accordingly, regional housing demand in 2009 will favour submarkets with heavier shares of more affordable homes. This means that areas with housing prices above the city average, such as the Downtown core and some lower-density suburban neighborhoods, will likely be

Figure 3

Source: Ottawa Real Estate Board; Seasonal adjustment and forecast ranges calculated by CMHC

Figure 4




Source: CMHC, Statistics Canada, CREA

among the hardest hit. In contrast, neighborhoods with a higher share of high-density dwellings, such as townhomes and apartments, will experience more demand. This will be a major factor leading to flat price growth.

In general, homeownership demand will remain supported by historically low mortgage rates and slower price growth. This has led to an 18 per cent reduction in the real mortgage carrying costs during the first quarter of 2009, off from the peak in early 2008. Such an improvement in housing affordability in a stable and healthy market will provide first-time buyers in Ottawa with an opportunity to jump into homeownership. First-time buyers have been recognized as key market players, whose behaviour will prove highly influential on Ottawa's housing market recovery.

# Economic Overview

## Ottawa's Record Labour Market Performance to Stabilize in 2009

In 2009, the nation's Capital City labor market will defy the broader economic slowdown. Employment growth this year is expected to stabilize at a mild but still positive 0.1 per cent, up from the all-time record set in 2008. As the Canadian economy enters a path of gradual recovery, 2010 will show a similar pace of employment growth.

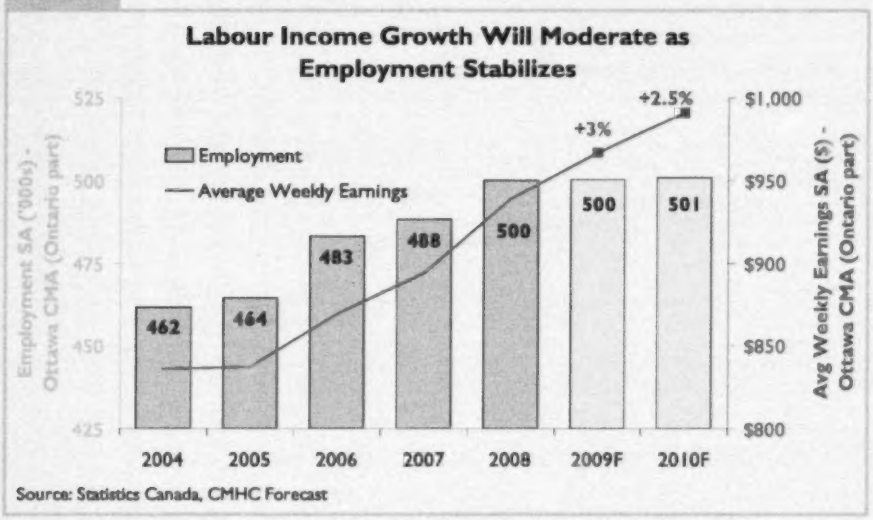
With the labour market performance being a lagging indicator of economic activity, the full time employment outlook remains moderately healthy, as it weakens only mildly from the record set in 2008. While the 25 to 44 age group will be the most negatively affected by the labour market slowdown, a compensating strong performance from the more established 45 to 64 age group segment will contribute to a soft decline in housing demand. The substitution effect from full time to part time employment is a normal response from Ottawa's employers, as they seek more sustainable staffing levels consistent with slower demand.

After achieving near record lows, the unemployment rate is expected to average 5.5 per cent at the end of 2009, with the outlook for 2010 remaining relatively stable. Rising unemployment will be the result of increasing supply and stable demand for labour. Ottawa's healthy performance will keep attracting workers, increasing the labour force supply.

## Public Administration Sector Will Benefit Ottawa's Employment

Consistent with last year's performance, the Public Administration sector will continue to support Ottawa's labour market, albeit at a slower pace than in 2008. Strength within this sector will compensate for weakness in other cyclical industries, such as manufacturing and high-tech. Employment growth within the construction sector will benefit from increases in public infrastructure spending plans as well as by the introduction of the new

Figure 5




Renovation Tax Credit unveiled in Canada's Economic Plan.

Ontario's employment trends are currently showing the negative effects of the global economic slowdown spilling over from the goods and into the services sector, due to slower business investment growth. Employment growth within Ottawa's services sector, which employs almost half of Ottawa's workforce, is expected to stay relatively flat during 2009, as the overall economic fundamentals remain healthier than the provincial average.

## High Income Growth Will Support Migration

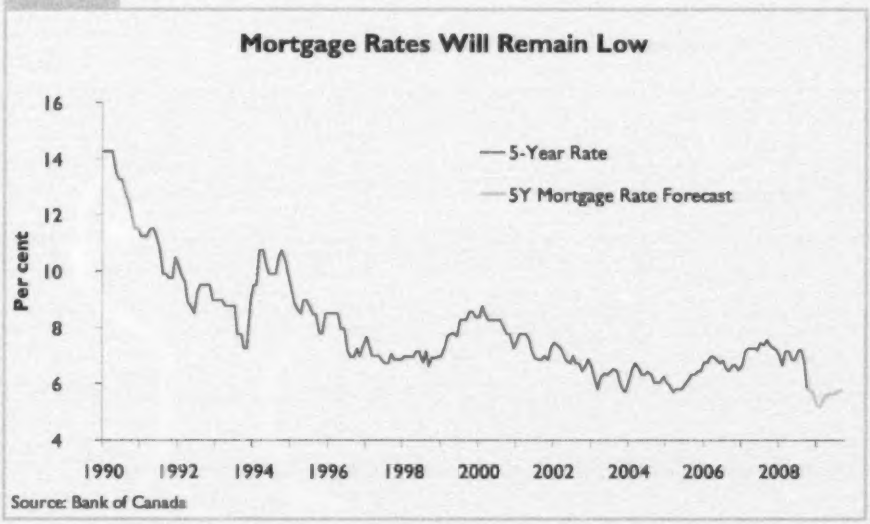
Since employees within the Public Administration and Services sectors enjoy one of the highest average paycheques in Ottawa, household labour income growth is expected to remain solid during 2009. The average weekly earnings over all industries will therefore increase faster than inflation at three per cent, maintaining Ottawa's privileged position as having one of the best paid workforce among large Canadian centers.

The Queen City therefore combines high and stable returns to labour with one of the highest living standards in the country. These factors will constitute powerful magnets for Canada's most skilled and productive workers, as job security becomes an increasingly valued advantage in the midst of such uncertain times. Both inter- and intra-provincial migration are expected to hold up better vis-à-vis trends in the rest of Ontario, given Ottawa's more stable economy.

## Mortgage Rates

Mortgage rates are expected to be relatively stable throughout 2009, remaining within 25-75 basis points of their current levels. Posted mortgage rates will increase very gradually during the course of 2010, reflecting a rise in government of Canada bond yields. For 2010, the one year posted mortgage rate will be in the 4.75-6.00 per cent range, while three and five year posted mortgage rates are forecast to be in the 5.00-6.75 per cent range.

Figure 6



## Forecast Summary
## Ottawa CMA
## Spring 2009

| | 2006 | 2007 | 2008 | 2009f | % chg | 2010f | % chg |
|---|---|---|---|---|---|---|---|
| **Resale Market** | | | | | | | |
| MLS® Sales | 14,003 | 14,739 | 13,908 | 12,500 | -10.1 | 13,200 | 5.6 |
| MLS® New Listings | 23,808 | 22,477 | 24,196 | 25,000 | 3.3 | 24,750 | -1.0 |
| MLS® Average Price ($) | 257,481 | 273,058 | 290,483 | 289,000 | -0.5 | 291,000 | 0.7 |
| **New Home Market** | | | | | | | |
| **Starts:** | | | | | | | |
| Single-Detached | 2,480 | 2,973 | 2,956 | 2,125 | -28.1 | 2,000 | -5.9 |
| Multiples | 3,395 | 3,533 | 4,042 | 3,250 | -19.6 | 3,500 | 7.7 |
| Semi-Detached | 383 | 300 | 213 | 200 | -6.1 | 200 | 0.0 |
| Row/Townhouse | 1,793 | 1,954 | 2,153 | 1,700 | -21.0 | 1,850 | 8.8 |
| Apartments | 1,219 | 1,279 | 1,676 | 1,350 | -19.5 | 1,450 | 7.4 |
| Starts - Total | 5,875 | 6,506 | 6,998 | 5,375 | -23.2 | 5,500 | 2.3 |
| **Average Price ($):** | | | | | | | |
| Single-Detached | 385,729 | 396,762 | 408,991 | 411,000 | 0.5 | 417,000 | 1.5 |
| **Median Price ($):** | | | | | | | |
| Single-Detached | 351,900 | 364,900 | 369,900 | 371,350 | 0.4 | 375,750 | 1.2 |
| New Housing Price Index (% chg) (Ottawa-Gatineau) | 3.1 | 1.8 | 1.8 | 0.5 | - | 1.5 | - |
| **Rental Market** | | | | | | | |
| October Vacancy Rate (%) | 2.3 | 2.3 | 1.4 | 1.0 | -0.4 | 0.8 | -0.2 |
| Two-bedroom Average Rent (October) ($) | 941 | 961 | 995 | 1,025 | 3.0 | 1,065 | 3.9 |
| **Economic Overview** | | | | | | | |
| Mortgage Rate (1 year) (%) | 6.28 | 6.90 | 6.70 | 4.80 | -1.90 | 5.29 | 0.49 |
| Mortgage Rate (5 year) (%) | 6.66 | 7.07 | 7.06 | 5.64 | -1.42 | 5.94 | 0.30 |
| Annual Employment Level | 483,100 | 488,200 | 500,000 | 500,250 | 0.1 | 500,750 | 0.1 |
| Employment Growth (%) | 4.0 | 1.1 | 2.4 | 0.1 | - | 0.1 | - |
| Unemployment rate (%) | 5.1 | 5.1 | 4.9 | 5.5 | - | 5.5 | - |
| Net Migration [1] | -725 | 1,000 | 1,606 | 2,103 | - | 2,459 | - |

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Source: CMHC (Starts and Completions Survey, Market Absorption Survey), adapted from Statistics Canada (CANSIM), CREA, Statistics Canada (CANSIM)
**NOTE:** Rental universe = Privately initiated rental apartment structures of three units and over
(1) 2007 and 2008 migration numbers are forecasts

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